



AUDITOR-GENERAL  
SOUTH AFRICA

The Accounting Officer  
Tsantsabane Municipality  
P.O Box 5  
Postmasburg  
8420

15 March 2011

Reference: 21352REG09-10

Dear Sir

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Tsantsabane Municipality for the year ended 30 June 2010**

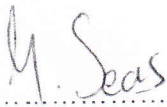
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa [section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)].
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) (municipality); of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in

the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



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Senior Manager: Northern Cape

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# AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE TSANTSABANE LOCAL MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the accompanying financial statements of the Tsantsabane Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor-general's responsibility

3. As required by section 188 of the Constitution of South Africa, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Because of the matters described in the basis for disclaimer of opinion paragraphs, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for disclaimer of opinion

#### 4. Property, plant and equipment

- 4.1 The completeness, rights and valuation of property, plant and equipment stated at R550 884 795 in note 5 to the financial statements could not be confirmed due to the following:
  - I could not obtain invoices for additions amounting to R2 804 396.
  - Certain office furniture and equipment could not be traced to the asset register due to an inadequate asset register.
  - The records of the municipality did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, rights and valuation of property, plant and equipment.
- 4.2 During the 2008-09 financial year, assets were overstated and expenditure was understated by R3 710 011, due to an incorrect accounting recognition. To date the municipality has still not corrected the misstatement.



## 5. Investment property

5.1 Investment property stated at R38 837 792 in note 4 to the financial statements is misstated due to the following:

- Investment property to the value of R1 361 505 was included in the financial statements and the asset register. The evidence I have obtained indicated that ownership of the property did not vest in the municipality.
- The records of the municipality did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the rights and valuation of investment property.

5.2 The Standard of Generally Recognised Accounting Practice, GRAP 16 *Investment Property*, requires property held to earn rentals or for capital appreciation to be recognised as investment property. Additions to property, plant and equipment of R291 650 were incorrectly recognised as investment property. If these properties had been recognised as property, plant and equipment, investment property would have decreased by R291 650 and property, plant and equipment would have increased by the same amount.

## 6. Inventory

6.1 The completeness, existence, rights and valuation of inventory stated at R531 295 in note 7 to the financial statements could not be confirmed due to the following:

- I could not obtain supporting documentation for inventory bought amounting to R157 021.
- The records of the municipality did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, existence, rights and valuation of inventory.

6.2 The inventory balance of R531 295 as disclosed in note 7 to the financial statements did not agree to the balance of R321 587 per the inventory count sheets. The municipality did not reconcile the difference of R209 708 between the financial statements and the underlying accounting records. Consequently, the inventory balance was overstated by R209 708. I could not determine the effect on the other account balances or classes of transaction contained in the financial statements.

## 7. Trade and other receivables from exchange transactions

7.1 Trade and other receivables stated at R26 901 738 in note 9 to the financial statements were misstated due to the following:

- Reconnection fees amounting to R5 922 813 were not recorded and billed to consumer accounts, resulting in revenue and accounts receivable as disclosed in the financial statements being understated by R5 922 813.
- An adjusting journal relating to accounts receivable was not recorded in the accounting records, resulting in accounts receivable and the accumulated surplus as disclosed in the financial statements being overstated by R4 182 614.
- Connection fees amounting to R219 222 were not billed to consumer accounts, resulting in accounts receivable and consumer deposits as disclosed in the financial statements being understated by R219 222.
- Accounts receivable and revenue were understated by R122 389 due to rental and services earned on municipal houses not being collected from officials.



- Accounts receivable was not assessed for impairment as required by the Statement of Generally Accepted Accounting Practice, IAS 39 *Financial Instruments: Recognition and Measurement*.
  - The records of the municipality did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation of trade and other receivables from exchange transactions.
- 7.2 Provisions for bad debt were understated by R14 451 645 during the 2008-09 financial year. Therefore, receivables and the accumulated surplus were overstated by the said amount. To date the municipality has not corrected the misstatement.
- 7.3 Other debtors amounting to R5 137 087 as disclosed in note 9 to the financial statements could not be confirmed, as no supporting documentation could be provided to support the amount disclosed. The records of the municipality did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, existence, rights and valuation of other debtors from exchange transactions.

#### 8. Trade and other payables from exchange transactions

- 8.1 The completeness, existence, obligations and valuation of trade and other accounts payable from exchange transactions stated at R27 486 563 in note 13 to the financial statements could not be confirmed due to the following:
- I could not obtain supporting documentation for accounts payable amounting to R21 615 849.
  - There was no accounts payable management system for the identification and recognition of accounts payable.
  - The records of the municipality did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, existence, rights and valuation of trade and other payables from exchange transactions.
- 8.2 Trade and other payables from exchange transactions stated at R27 486 563 in note 13 to the financial statements were misstated due to the following:
- The municipality did not accrue for invoices in respect of goods and services received amounting to R35 694 004. If these invoices had been accrued, the effect would have been to reduce the surplus for the period and accumulated surpluses by R35 694 004 and to increase the accrued liability in the statement of financial position by an equal amount.
  - The underlying accounting records reflect unspent conditional grants amounting to R749 582, however no amount was disclosed in the financial statements. The municipality did not reconcile the difference of R749 582 between the financial statements and the underlying accounting records. I could not determine the effect of the difference on account balances or classes of transactions.
  - The current portion of the long-term loans of the municipality was not disclosed in the financial statements. Therefore, payables were understated and non-current liabilities overstated by R1 550 153.
  - An adjusting journal relating to accounts payable was not recorded in the accounting records, resulting in accounts payable being overstated by R562 985 and the accumulated surplus and deficit being understated by the said amount.



8.3 Expenditure was understated by R7 103 990 during the 2008-09 financial year, due to expenditure and creditors not being processed on the accounting system and unspent grants not being recognised. These misstatements have still not been corrected by the municipality to date. Therefore, expenditure, the accumulated surplus/deficit and payables were understated by the said amount.

## **9. Cash and cash equivalents**

9.1 The cash and cash equivalents overdraft as stated at R9 988 222 in note 10 to the financial statements was misstated due the following:

- Short-term investments were recorded at a negative amount of R4 295 171, although the bank statements reflected a positive balance of R9 595 095. Therefore, revenue and short-term investments were understated by R13 890 266.
- The bank overdraft balance of R5 701 948 as disclosed in note 10 to the financial statements did not agree to the balance of R5 646 140 per the general ledger. The municipality did not reconcile the difference of R55 808 between the financial statements and the underlying accounting records. Consequently, the bank overdraft balance was understated by R55 808. I could not determine the effect on the other account balances or classes of transaction contained in the financial statements.
- The bank reconciliation was not accurately calculated and a difference of R67 453 existed. The supporting documentation for the reconciling items could not be obtained and the reconciliation was not mathematically accurate as a result of the balances not agreeing.

9.2 During 2008-09, bank and revenue was understated by R44 927. To date the suspense accounts have not been cleared to address this matter.

## **10. Value-added tax (VAT)**

10.1 The VAT payable as stated at R2 962 973 in note 13 to the financial statements was misstated due the following:

- The VAT payable balance of R2 962 973 as disclosed in note 14 to the financial statements did not agree to the debit balance of R7 906 881 per the VAT returns. The municipality did not reconcile the difference of R10 869 854 between the financial statements and the underlying accounting records. Consequently, the VAT payable was overstated by R10 869 854. I could not determine the effect on the other account balances or classes of transaction contained in the financial statements.
- An adjusting journal relating to VAT amounting to R714 540 was not recorded in the accounting records, resulting in the VAT liability and accumulated surplus being understated by R714 540.

## **11. Provisions**

11.1 Provisions as stated at R1 206 816 in note 12 to the financial statements were misstated due the following:

- An adjusting journal relating to the provision for leave amounting to R862 652 was not recorded in the accounting records, resulting in the provision for leave and the accumulated surplus being understated by R862 652.
- The movement in the provision for leave was not recorded in the accounting records, resulting in the provision for leave and personnel cost being understated by R253 289.



## 12. Revenue

- 12.1 The completeness of revenue as disclosed at R102 120 874 in the statement of financial performance could not be confirmed, as donations received from surrounding mining entities were not posted to the general ledger, because the financial records of the municipality were not updated throughout the financial period. Therefore, revenue and short-term investments were understated by R62 873 844 (2009: R14 558 141).
- 12.2 Service charges revenue as disclosed at R32 450 678 in note 17 to the financial statements were misstated, as services rendered amounting to R2 051 300 were not billed to consumers, resulting in revenue and receivables being understated by R2 051 300.
- 12.3 Service charges revenue as disclosed at R32 450 678 in note 17 to the financial statements were misstated, as services rendered amounting to R1 352 959 were incorrectly billed to consumers, resulting in revenue and receivables being overstated by R1 352 959.
- 12.4 Revenue was overstated by R1 933 318 during the 2008-09 financial year, due to approved tariffs not being used to charge consumers and the unspent portion of conditional grants being recognised incorrectly. These misstatements have still not been corrected by the municipality to date. Therefore, revenue, accumulated surpluses and receivables were overstated by the said amount.

## 13. Expenditure

- 13.1 General expenses as disclosed at R12 124 786 in note 19 to the financial statements were misstated, as the auditor's remuneration amounting to R933 826 was not recorded in the accounting records, resulting in general expenses and accounts payable being understated by R933 826.
- 13.2 Finance costs amounting to R8 432 as disclosed in note 24 to the financial statements were misstated, as finance costs on long-term liabilities were not processed on the accounting system, leading to finance costs and long-term liabilities being understated by R164 563.
- 13.3 Free basic services disclosed at R4 346 918 (2008-09: R5 073 031) as part of general expenditure in note 20 to the financial statements were incorrectly classified due to the following:
- Electricity purchases amounting to R677 246 incurred for free basic services were not allocated to bulk purchases of electricity in note 27 to the financial statements. Therefore, bulk purchases of electricity were understated and free basic services were overstated by R677 246.
  - The free basic services expense account was incorrectly debited instead of revenue being debited in the accounting records, to ensure that double accounting did not occur. Therefore, free basic services and revenue from services rendered were overstated by R3 667 672.

## 14. Personnel cost

- 14.1 The accuracy, completeness and occurrence of personnel cost disclosed at R35 201 527 in note 20 to the financial statements could not be confirmed due to the following:
- I could not obtain sufficient appropriate evidence for salary payments amounting to R1 232 280.
  - I could not physically verify employees who received salary payments amounting to R468 237.



- The records of the municipality did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy, completeness and occurrence of employee cost.

14.2 Personnel cost disclosed at R35 201 527 in note 20 to the financial statements was misstated, as personnel cost amounting to R4 343 688 was not recorded in the accounting records, resulting in the accumulated surplus and personnel cost being overstated by R4 343 688.

## 15. Accumulated surplus

15.1 The municipality could not provide sufficient appropriate audit evidence to support the IMFO to GRAP conversion journals amounting to R4 755 947. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance to satisfy myself as to the accuracy, completeness and occurrence of these journals.

15.2 Due to all of the above misstatements, the accumulated surplus and deficit amounts as disclosed in the statement of financial position and the statement of changes in net assets were materially misstated.

## 16. Leases

16.1 The completeness of leases as disclosed in note 26 to the financial statements could not be confirmed, since no disclosure was made in the financial statements as required by GRAP 13 *Leases*. A number of operating leases and finance leases were not accounted for in the financial statements. The records of the municipality did not permit the application of alternative audit procedures and therefore the completeness of leases could not be confirmed.

## 17. Irregular expenditure

17.1 Irregular expenditure was omitted from the financial statements:

- There was no system of control over the identification and recording of irregular expenditure on which I could rely for purposes of my audit.
- Section 112(1) of the MFMA requires the municipality to implement and maintain a supply chain management policy that is fair, equitable, transparent, competitive and cost-effective. Payments amounting to R2 249 239 were made in contravention of the supply chain management requirements. This amount was not disclosed in the financial statements.
- Section 95(e) of the MFMA states that expenditure must be incurred in accordance with the operational policies of the municipality. Payments amounting to R1 425 060 were made in contravention of the human resource requirements. These payments related to appointments that were not approved on the organogram, performance bonuses that were paid without proper assessments having been performed, as well as councillor remuneration exceeding the upper limits as included in the Public Office Bearer's Act.
- Irregular expenditure amounting to R26 106 607 that was reported in the prior year's audit report was again not disclosed and/or condoned in the 2009-10 financial year as comparative figures, since the management of the municipality had not addressed the prior year's audit findings. Therefore the irregular expenditure is understated by R26 106 607 in the current financial year as well.



## **18. Fruitless and wasteful expenditure**

18.1 Fruitless and wasteful expenditure was omitted from the financial statements:

- There was no system of control over the identification and recording of fruitless and wasteful expenditure on which I could rely for purposes of my audit.
- Section 95(d) of the MFMA requires the accounting officer to take reasonable steps to ensure that fruitless and wasteful expenditure is prevented. Interest and other payments amounting to R442 717 were incurred, which were made in vain and could have been prevented.

## **19. Unauthorised expenditure**

19.1 I could not confirm the completeness of unauthorised expenditure, as the actual expenditure was not split per vote against the budget. The records of the municipality did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of unauthorised expenditure, as the capital budget for additions of assets was exceeded by R3 185 418.

## **20. Contingent liabilities**

20.1 Contingent liabilities were misstated since no disclosure was made in the financial statements as required by GRAP 19 *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities relating to pending court cases against the municipality amounting to R800 000 were not disclosed in the financial statements.

## **21. Commitments**

21.1 The completeness of commitments could not be confirmed, as it was not disclosed in the financial statements. The records of the municipality did not permit the application of alternative audit procedures and therefore the completeness of commitments could not be confirmed.

## **22. Employee benefits**

22.1 The existence, rights and obligations, valuation and allocation as well as completeness of employee benefits could not be confirmed, as no disclosure was made in the financial statements as required by IFRS 19.

## **23. Key management personnel**

23.1 The occurrence, cut-off, classification, accuracy and completeness of key management personnel expenditure could not be confirmed, as no disclosure was made in the financial statements.

## **24. Cash flow statement**

24.1 Due to the impact of the differences noted in cash and cash equivalents, together with the extensive errors in the general ledger as highlighted in the basis for disclaimer of opinion paragraphs, the accuracy of the cash flow statement and the notes thereto could not be verified. The records of the municipality did not permit the application of alternative audit procedures.

## **25. Restatement of corresponding figures**

25.1 The corresponding figures for 30 June 2009 have been restated as a result of the municipality converting to GRAP reporting standards. The extent of the restatement was included in note 2 to the financial statements, but the accuracy could not be confirmed as no supporting documentation could be provided for the journals and the journals were not processed on the accounting system.

## **26. Disclosure**

26.1 The financial statements of the municipality were not prepared in accordance with the requirements of GRAP 1, 3 and 4. Therefore, the fair presentation of the municipality's financial statements was not achieved due to the following:

- Various accounting policies were included in the financial statements that were not applicable to the municipality.
- Note 16 to the financial statements indicated the amount of property rates as a template amount of R999 999 999.
- No details regarding grants and subsidies received and how the money was used, or the balances of the unspent portions at year-end, were disclosed, although the municipality received the following grants: municipal infrastructure grant (MIG), finance management grant (FMG), municipal grant (MSIG), primary health care grant, housing grant and DBSA grant.
- The municipality incorrectly included interdepartmental charges of R58 (2009: R649 576) as part of general expenses in note 19 to the financial statements, which resulted in non-compliance with GRAP.
- The municipality incorrectly included extraordinary compensation of R0 (2009: R41 745) as part of general expenses in note 19 to the financial statements, which resulted in non-compliance with GRAP.
- The disclosure requirements as set out in IFRS 7 regarding financial instruments were not properly disclosed in the financial statements, which resulted in non-compliance with GRAP.

## **27. Disclaimer of opinion**

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

## **28. Emphasis of matter**

I draw attention to the matter below. My opinion is not modified in respect of this matter:

### **29. Material losses (through criminal conduct/impairments)**

Financial misconduct occurred as a senior official of the municipality misappropriated cash amounting to R26 766. The cash was only replaced a month later when it was reported to the South African Police Service by a council member. To date, no proper investigation has been conducted by the council.

## **30. Additional matter**

I draw attention to the matter below. My opinion is not modified in respect of this matter:

### **31. Material inconsistencies in the other information included in the annual report**

I have not obtained the annual report and have therefore not been able to identify any material inconsistencies with the financial statements.



### **32. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In terms of the PAA and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA), the Municipal Planning and Performance Management Regulations, 2001, the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and the Municipal Structures Act of South Africa, 1998 (Act No. 117 of 1998), and financial management (internal control).

#### **Predetermined objectives**

### **33. Non-compliance with regulatory and reporting requirements**

#### **No reporting against predetermined objectives, indicators and targets**

The municipality did not prepare an annual performance report in terms of section 46 of the MSA and section 121(3)(c) of the MFMA.

#### **Existence and functioning of a performance audit committee**

The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

#### **Internal auditing of performance measurements**

The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

#### **No mid-year budget and performance assessments**

The accounting officer of the municipality did not by 25 January 2010 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

#### **Compliance with laws and regulations**

### **34. Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)**

#### **The audit committee did not fulfil its responsibilities for the year**

Contrary to the requirements of section 166(2)(b) of the MFMA, the audit committee did not exist and function effectively throughout the financial period and did not review the annual financial statements to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with the MFMA.

#### **The internal audit function did not fulfil its responsibilities for the year**

Contrary to the requirements of section 165(2) of the MFMA, the internal audit unit did not function effectively as there were no approved internal audit plan and internal audit charter, no internal audit training was scheduled throughout the financial period, a risk assessment was not performed, and the head of the internal audit unit was not registered with any professional body.

**The annual report was not submitted to the auditor-general**

Contrary to the requirement of section 127(5)(b) of the MFMA, the municipality did not submit the annual report to the auditor-general before the annual report was tabled, therefore the accuracy and completeness of the information included in the annual report could not be confirmed.

**Expenditure was not paid within set parameters in accordance with applicable laws and regulations**

Contrary to the requirement of section 65(2)(e) of the MFMA, the municipality did not pay its creditors within 30 days of receiving the relevant invoice or statement.

**No effective revenue and collection systems**

The municipality did not have effective revenue collection systems consistent with section 95 of the MSA, the municipality's credit control and debt collection policy, and section 64(2)(a) of the MFMA.

**The mayor did not adhere to her legislative responsibilities**

The mayor did not comply with the legislative requirements on budgetary control and early identification of financial problems, as required by section 54(2) of the MFMA.

**The accounting officer did not execute his responsibilities**

Contrary to section 61 of the MFMA, the accounting officer did not execute his responsibilities as required by the MFMA.

**Submission of financial statements**

The annual financial statements were only submitted on the 15<sup>th</sup> of December 2010, due to the resubmission of financial statements that was initially submitted on the 31<sup>st</sup> of August 2010 by the municipality, to try and improve their audit outcome. Therefore non-compliance with section 126 (1)(a) of the MFMA occurred.

**Supply chain management legislative requirements were not adhered to**

Contrary to section 62(1)(b) of the MFMA, proper record keeping and management did not take place, resulting in requested information not being available or supplied after a significant delay.

**No risk assessment performed**

No risk assessment was performed for the identification, consideration and avoidance of potential risks in the supply chain management system.

**Disciplinary and criminal proceedings regarding instances of financial misconduct were not instituted in accordance with legislation**

The municipality did not investigate allegations of financial misconduct against a senior official of the municipality in terms of sections 162(1)(e) and 171(4) of the MFMA.



**The financial statements were not prepared in accordance with the applicable legislation**

- Contrary to the requirements of section 123 of the MFMA, the municipality did not disclose intergovernmental grants and other allocations as well as how grants had been spent in the financial statements.
- Contrary to the requirement of section 125(2)(e) of the MFMA, the municipality did not ensure that incidents of non-compliance with the MFMA were disclosed in the financial statements.

**Non-submission of reports**

Contrary to the requirement of section 32(4) of the MFMA, the municipality did not submit reports of unauthorised, irregular as well as fruitless and wasteful expenditure incurred to the MEC for Local Governance and the auditor-general.

**Monthly reconciliations not performed**

Contrary to section 98 of the MFMA, monthly reconciliations of municipal accounts were not performed, as the accounting officer did not take reasonable measures to ensure compliance with the act. Treasury Regulation 17.1.2 requires the sources of the transactions in a clearing account to be readily identifiable, as well as monthly reconciliations to be performed to confirm the balance of the account. This information could not be provided as the accounting records of the municipality were not updated throughout the financial period.

**Risk assessment not performed**

A risk assessment was not performed for the financial year under review. This led to a fraud prevention policy not being implemented, which resulted in the contravention of section 62(1)(c) of the MFMA.

**35. Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA)**

**No job descriptions for municipal employees**

No job descriptions existed as required by section 66 of the MSA.

**Performance reviews not performed**

No performance reviews were performed as required by sections 39 and 40 of the MSA.

**Disclosure of interests of councillors not adequately documented**

Contrary to the requirement of schedule 1, section 5 of the MSA, the disclosure of councillors' interests was not adequately documented.

**No approved staff establishment**

Contrary to section 66 of the MSA, the municipality had no approved staff establishment that met all the requirements of the MSA.

**INTERNAL CONTROL**

36. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA, DoRA, the MSA, the Municipal Planning and Performance Management Regulations, 2001, and the Municipal Structures Act, 1998, but not for the purpose of expressing an opinion on the effectiveness of internal control.

37. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraphs, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

**38. Leadership**

The senior management of the municipality did not set the correct tone at the top. Senior management did not respect and adhere to internal controls, which resulted in unauthorised, irregular as well as fruitless and wasteful expenditure being incurred and not detected by management.

**39. Financial and performance management**

**39.1 Financial management**

The performance and monitoring of key controls on a daily basis did not occur, which resulted in material misstatements in the financial statements. Financial statements were not prepared by the chief financial officer, who is charged with this responsibility. Key officials in the finance section were not adequately involved in the preparation and review of financial statements prepared by consultants, resulting in various misstatements. In the absence of appropriate GRAP training to finance staff, management had to appoint external service providers to compile the financial statements.

**39.2 Predetermined objectives**

Senior management did not ensure that annual performance was monitored throughout the year and therefore no performance report was submitted as required by the MFMA. Senior officials were not held accountable for their failure to execute their responsibilities.

**39.3 Compliance with laws and regulations**

There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.

**40. Governance**

**40.1 Risk identification**

No risk assessments were performed during the year.

**40.2 Fraud prevention**

The accounting officer did not ensure that a fraud prevention policy was implemented for the financial period under review.

**40.3 Internal audit**

The municipality appointed its own internal audit division. The work of the internal audit division was inadequate for the purposes of the audit as the unit was understaffed. The internal audit unit did not function effectively as there was no approved internal audit plan and internal audit charter, no internal audit training was scheduled throughout the financial period, a risk assessment was not performed, and the head of the internal audit unit was not registered with any professional body.



#### 40.4 Audit committee

The audit committee did not exist and function effectively throughout the financial period and did not review the annual financial statements to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with the MFMA.

*Auditor General*

Kimberley

15 March 2011



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*